

are plastered on buildings or mounted on rooftops all over the place proclaiming "The Plan of the 27th Party Congress Will Be Fulfilled" or, even more laughable, "The Party and the People Are One!"

The Soviet state has been successful so far in keeping articles and books by Ludwig von Mises and other free-market thinkers extremely rare. Still people grumble about the state, then go about their private and profitable affairs. But I'd like to change that. If the insights of *Socialism* became widely known, Gorbachev would be staring a real revolution in the face.

Freedom vs. Planning

Richard Ebeling

As the 20th century began, the most widely held vision of the future was socialist: capitalism would be replaced by central planning and the state would own all the means of production.

The 20th century is ending with the socialist ideal in complete disarray. The heads of socialist governments everywhere declare that economic progress requires individual initiative and private enterprise. They admit that only competition and a market price system can bring economic coordination to a complex system of division of labor.

All of this was anticipated by Ludwig von Mises almost 70 years ago in his famous 1920 article, "Economic Calculation in the Socialist Commonwealth" and in his monumental treatise, *Socialism: An Economic and Sociological Analysis* (1922).

Mises conclusively demonstrated that without market-generated prices, expressed in terms of a common medium of exchange, it is impossible to use society's scarce resources in a

rational manner. A central planner might know the technological potentials of the resources at his disposal, but he has no way to know what economic values to assign to those resources. He cannot know how to allocate resources among alternative lines of production, and thus cannot rationally service consumers' demands. This insight means that our choice of economic systems can only be between free-market capitalism and "planned chaos." "There is no third solution, no middle way," says Mises.

It is clear that socialism has lost the war on the battlefield of ideas. But free-market capitalism has not yet won. Both in the United States and around the world, policy-makers promote the "mixed economy," a hodgepodge of competition and state control. Intellectuals on both the collectivist left and the conservative right have enshrined the idea of state intervention.

Capitalism delivers the goods, they say, but the distribution of these goods is "unfair." The profit motive is a powerful engine for individual initiative and creativity, but too often the commodities produced are "socially undesirable" and exist only at the expense of the good society. And while competition is desirable to keep producers on their toes, too much of a good thing can be bad. Thus government needs to protect competitors from "unfair" competition, domestic and foreign.

Free market replies to every one of these arguments for state intervention can be found in the writings of Ludwig von Mises: in *Liberalism*(1927), *Critique of Interventionism* (1929), *Human Action* (1949), *Planning for Freedom* (1952), *The Anti-capitalist Mentality* (1956), and *Economic Policy* (1979).

What about the argument that capitalism "unfairly" distributes the goods produced by it? Mises demonstrates that the argument is based on a false conception of the free-market process. Production and distribution are two sides of the same coin. Production requires the combined use of various factors of production, and labor is one of those resources.

Each resource is offered a price, through entrepreneurial judgments, for its service equal to its relative value as a contribution to the production of commodities. Each factor of production contracts for the services it will render before there is a product available for sale.

The entrepreneur develops expectations about what consumers would be willing to pay in the future for the product being considered, and offers wages to laborers and payment for services of other resources.

But who are the consumers? Ultimately, they are the very same laborers and resource owners whom the entrepreneur is considering hiring. It is thus the laborers and resource owners, in their roles as consumers, who determine what their own relative income shares will be. They do so through their decisions about what they wish to buy and what prices they are willing to pay for them.

Thus, if some groups of workers believe they are “unfairly” paid, they have no one to accuse but themselves and the other laborers. They have failed to spend a greater percentage of their income on the particular products that the workers produce.

“Producers” and “consumers” are really the same people. And because this is always true in the free market, the second charge against free-market capitalism, that it produces “socially undesirable” products, also fails.

First, as Mises forcefully argued, there is no dichotomy between “society” and the individuals comprising it. Nothing happens to or for “society” that doesn’t originate with the individuals whose actions create societal relationships.

Second, in the free market, competition makes the entrepreneur the servant and not the master of the economic process. The entrepreneur must ultimately supply what individuals in their role as consumers demand. An entrepreneur who fails to do this will be driven from business and other entrepreneurs more sensitive to consumer wishes will replace him.

Finally, when people say that some product is “socially undesirable,” they really mean that people in society are demanding things of which they disapprove. But rather than attempt to use reason to persuade others to change their buying preferences, they want to use government to coerce them into abstinence. To answer this, Mises argued that freedom is indivisible. Once it is admitted that government has the right to infringe on the peaceful and personal preferences of individuals in one area, state interference cannot logically be excluded from other spheres. At the end of this road is the totalitarian state (see *Liberalism*, pp. 52-57).

In *Human Action*, Mises showed that free markets mean social cooperation, not social conflict. It is through this process of competition that we know who, among the various suppliers, can most successfully satisfy consumers’ demands at the least cost and, therefore, at the lowest price. And through this process each individual finds his most efficient and profitable place in the social system of the division of labor.

He who asks for state protection from the rigors of competition, Mises explains, is asking for special privilege at the expense of the other members of society. He is demanding special regulations, tariffs, or subsidies in order to receive a higher relative income than what others in the free-market economy are willing to pay him for his products or services.

If the government grants the special privilege, the results are disruptive of the peaceful free market process of economic change and progress. When other members of society begin to obtain government privileges and protections, the cumulative effect is declining production, less innovation, higher prices, and a lower standard of living for the members of the whole society.

Mises’s most important contribution to understanding the fallacies of state intervention is his demonstration that “the Middle-of-the-Road Leads to Socialism.” All government interventions and regulations are inherently destabiliz-

ing and disruptive. And the logical consequences of one set of interventions is that the government will extend its controls to more and more sectors of the economy to "repair" the damage created by the first set of controls.

If, for example, the government imposes price controls in one part of the economy, the controls will distort the existing free-market relationships between prices and the costs of production. If the controlled price is set below the costs of production, sellers in that part of the economy will no longer be able to produce the same amount of the product as before. If the government wants high production levels, it must extend the price controls to the prices of the factors that go into making that product. But those factors of production have, in turn, been produced with other resources whose prices will also have to be controlled.

The interdependency of all prices and all markets in a system of division of labor means that if the government decides to control one part of the economy, it must end up controlling all of it. Finally, when the controls and regulations pervade every portion of the economy, the free market is completely supplanted by the state, and socialism replaces capitalism through piecemeal interventionism. In short, as Mises says, "the middle-of-the-road policy is not an economic system that can last. It is a method for the realization of socialism by installments."

But what would *logically* happen if government remains on the interventionist road is different from what must happen.

Mises repeatedly observed that the Western world was moving toward collectivism. But he also emphasized that "the trend can be reversed as was the case with many other trends in history." In the realm of human action no choices are "inevitable." History is made by men, and men are ultimately guided by ideas.

A victory for free-market capitalism is possible. Just as theory and experience refuted the case for socialism, the same can happen to state intervention and the "mixed economy."

In fact, in terms of practical results, state intervention is already defunct. But people must be shown how to read the signs left behind by a controlled, taxed, and welfarist “mixed economy.” People must understand why it happened and what it demonstrates, that if we want peace, prosperity, and liberty, there is no alternative to free-market capitalism.

Thanks to Ludwig von Mises, we have the arguments and insights to lead us in the battle of ideas.

Why Socialism Must Fail

Hans-Hermann Hoppe

Socialism and capitalism offer radically different solutions to the problem posed by scarcity: everybody can’t have everything they want when they want it, so how can we effectively decide who will own and control the resources we have? The chosen solution has profound implications. It can mean the difference between prosperity and impoverishment, voluntary exchange and political coercion, even totalitarianism and liberty.

The capitalist system solves the problem of scarcity by recognizing the right of private property. The first one to use a good is its owner. Others can acquire it only through trade and voluntary contracts. But until the owner of the property decides to make a contract to trade his property, he can do whatever he wants with it, so long as he does not interfere with or physically damage the property owned by others.

The socialist system attempts to solve the problem of ownership in a completely different way. Just as in capitalism, people can own consumer products. But in socialism, property which serves as the means of production are collectively